



**Nkandla Municipality
Annual Financial Statements
for the year ended 30 June 2015**

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Nature of business and principal activities

The main business of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services: electricity and waste management.

Mayoral committee

Executive Mayor

His Worship - The Mayor Cllr AT Ntuli

Deputy Mayor - Cllr TO Ndhlela

Councillors

Speaker - Cllr NFJ Nzuza

Exco Member - Cllr SO Sibiya

Exco Member - Cllr BZ Mncadi-Mpanza

Exco Member - Cllr BW Sibiya

Cllr SA Majola

Cllr BB Ndimba

Cllr SB Manyathi

Cllr BV Khanyile

Cllr BN Buthelezi

Cllr JB Ntuli

Cllr L Ntombela

Cllr SE Mhlongo

Cllr TT Dlamini

Cllr NR Xulu

Cllr FK Magubane

Cllr HR Ntombela

Cllr PR Dlamini

Cllr CM Mthlangane

Cllr SV Lushozi

Cllr TF Nxumalo

Cllr BB Domo

Cllr SM Bhengu

Cllr NPN Magubane

Cllr S Buthelezi

Cllr MBE Ntombela

Grading of local authority

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Accounting Officer

Mr SBS Sibisi (Acting)

Chief Finance Officer (CFO)

Mr BH Bhengu (Acting)

Registered office

Private Bag x 161
Nkandla
3855

Business address

Maree Road, Lot 292
Nkandla
3855

Bankers

ABSA

Auditor

Auditor General of South Africa

Nkandla Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Cllr	Councillor
MSA	Municipal Systems Act
FMG	Financial Management Grant

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.


The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 49, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2015 and were signed on its behalf by:


Mr SBS Sibisi (Acting)
Accounting Officer

31 August 2015

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	3	-	91 423
Other receivables from exchange transactions	4	1 229 763	1 099 192
Receivables from non-exchange transactions	6	3 581 426	2 793 128
Receivables from exchange transactions	5	7 076 912	4 150 550
Cash and cash equivalents	8	9 050 757	1 319 198
		20 938 858	9 453 491
Non-Current Assets			
Investment property	9	5 663 995	5 895 722
Property, plant and equipment and intangible assets	10	279 058 629	251 705 964
Intangible assets	11	920 584	504 587
		285 643 208	258 106 273
Total Assets		306 582 066	267 559 764
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	14 222 939	9 678 071
VAT payable		9 283	66 062
Unspent conditional grants and receipts	13	4 788 142	4 436 386
Provisions	14	3 044 801	1 777 411
		22 065 165	15 957 930
Non-Current Liabilities			
Provisions	14	4 636 849	4 432 934
Total Liabilities		26 702 014	20 390 864
Net Assets		279 880 052	247 168 900
Accumulated surplus		279 880 052	247 168 900

* See Note 41

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Service charges	17	8 548 675	7 509 224
Rental of facilities and equipment	18	750 418	838 424
Interest on consumer debtors		1 549 335	1 789 643
Other income	20	564 577	1 526 331
Interest received - investment		989 265	1 288 493
Property rates	22	11 125 412	7 901 980
Government grants & subsidies	21	106 232 683	83 592 320
Total revenue		129 760 365	104 446 415
Expenditure			
Employee costs	24	(30 981 673)	(24 053 976)
Remuneration of councillors	25	(7 524 018)	(6 731 321)
Depreciation and amortisation	29	(6 397 373)	(5 143 584)
Impairment loss on assets	32	(1 823 628)	-
Lease rentals on operating lease	31	(1 681 464)	(1 541 877)
Debt Impairment	28	2 177 284	(2 341 372)
Repairs and maintenance	53	(1 744 436)	(6 034 187)
Bulk purchases	26	(10 998 881)	(8 073 041)
Contracted services	27	(5 164 701)	(4 552 435)
Grant expenditure	34	(8 213 158)	(19 458 790)
Loss on disposal of assets	33	(437 324)	(253 527)
General Expenses	30	(28 242 646)	(31 200 730)
Total expenditure		(101 032 018)	(109 384 840)
Surplus (deficit) for the year from continuing operations		28 728 347	(4 938 425)
Changes in accounting estimates	40	55 131	(452 861)
Surplus (deficit) for the year		28 783 478	(5 391 286)

* See Note 41

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Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	286 284 500	286 284 500
Changes in net assets		
Surplus for the year	(5 391 286)	(5 391 286)
Clearing of Payroll Suspense Opening balance (Note 41)	220 214	220 214
Prior period adjustment - capital projects to be handed over (Note 41)	(34 669 519)	(34 669 519)
Correction of errors in creditors	423 417	423 417
Correction of creditors balance (Note 41)	301 575	301 575
Total changes	(39 115 599)	(39 115 599)
Restated* Balance at 01 July 2014	247 168 900	247 168 900
Changes in net assets		
Surplus for the year	28 783 478	28 783 478
Newly identified assets (Note 10)	3 915 091	3 915 091
Correction to Electricity Charges	12 581	12 581
Total changes	32 711 150	32 711 150
Balance at 30 June 2015	279 880 050	279 880 050

* See Note 41

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Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		18 693 186	18 833 369
Grants		106 584 439	73 891 754
Interest income		989 265	1 288 493
		<u>126 266 890</u>	<u>94 013 616</u>
Payments			
Employee costs		(39 003 460)	(30 792 305)
Suppliers		(39 093 680)	(55 541 140)
		<u>(78 097 140)</u>	<u>(86 333 445)</u>
Net cash flows from operating activities	36	<u>48 169 750</u>	<u>7 680 171</u>
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	10	(39 721 127)	(53 272 999)
Purchase of other intangible assets	11	(717 064)	(179 458)
Net cash flows from investing activities		<u>(40 438 191)</u>	<u>(53 452 457)</u>
Net increase/(decrease) in cash and cash equivalents		<u>7 731 559</u>	<u>(45 772 286)</u>
Cash and cash equivalents at the beginning of the year		1 319 198	47 091 484
Cash and cash equivalents at the end of the year	8	<u>9 050 757</u>	<u>1 319 198</u>

* See Note 41

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments excluding virements	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Refer to Appendix E
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	14 932 000	(173 000)	14 759 000	8 548 675	(6 210 325)
Rental of facilities and equipment	491 500	(236 500)	255 000	750 418	495 418
Interest on consumer debtors	-	-	-	1 549 335	1 549 335
Other income	9 832 146	(2 607 146)	7 225 000	564 577	(6 660 423)
Interest received - investment	1 460 000	(960 000)	500 000	989 265	489 265
Gains on disposal of assets	1 600 000	1 400 000	3 000 000	-	(3 000 000)
Total revenue from exchange transactions	28 315 646	(2 576 646)	25 739 000	12 402 270	(13 336 730)

Revenue from non-exchange transactions

Taxation revenue

Property rates	5 525 000	2 565 000	8 090 000	11 125 412	3 035 412
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Transfer revenue

Government grants & subsidies	96 626 000	9 902 000	106 528 000	106 232 683	(295 317)
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Total revenue from non-exchange transactions

	102 151 000	12 467 000	114 618 000	117 358 095	2 740 095
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Total revenue

	130 466 646	9 890 354	140 357 000	129 760 365	(10 596 635)
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Expenditure

✓ Employee costs	(28 325 803)	(3 840 401)	(32 166 204)	(30 981 673)	1 184 531
✓ Remuneration of councillors	(7 274 116)	-	(7 274 116)	(7 524 018)	(249 902)
✓ Depreciation and amortisation	(2 466 000)	-	(2 466 000)	(6 397 373)	(3 931 373)
✓ Impairment loss	-	-	-	(1 823 628)	(1 823 628)
✓ Finance costs	(81 709)	81 709	-	-	-
✓ Lease rentals on operating lease	-	-	-	(1 681 464)	(1 681 464)
✓ Bad debts written off	-	-	-	2 177 284	2 177 284
✓ Repairs and maintenance	(9 832 750)	(741 750)	(10 574 500)	(1 744 436)	8 830 064
✓ Bulk purchases	(12 513 348)	-	(12 513 348)	(10 998 881)	1 514 467
✓ Contracted Services	(6 930 000)	(2 500 000)	(9 430 000)	(5 164 701)	4 265 299
✓ Transfers and Subsidies	(25 582 000)	25 582 000	-	(8 213 158)	(8 213 158)
✓ General Expenses	(37 417 000)	8 957 000	(28 460 000)	(28 242 646)	217 354

Total expenditure

	(130 422 726)	27 538 558	(102 884 168)	(100 594 694)	2 289 474
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Operating surplus

Loss on disposal of assets and liabilities	-	-	-	(437 324)	(437 324)
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Surplus before taxation

	43 920	37 428 912	37 472 832	28 728 347	(8 744 485)
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Surplus for the year from continuing operations

Changes in accounting estimates	-	-	-	55 131	55 131
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Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments excluding virements	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Refer to Appendix E
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	43 920	37 428 912	37 472 832	28 783 478	(8 689 354)	

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provision for landfill site

The entity has an obligation to rehabilitate its landfill site in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square metre, the monitoring cost per square metre, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value to represent the time value of money.

Other provisions

The municipality's other provisions consist of a provision for leave pay and a provision for long service award. Provisions are measured as the present value of the estimated future outflows required to settle the obligation.

Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value using the straight line method over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment and intangible assets is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment and intangible assets is initially measured at cost.

The cost of an item of property, plant and equipment and intangible assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment and intangible assets is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment and intangible assets have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and intangible assets.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and intangible assets and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment and intangible assets, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment and intangible assets ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment and intangible assets. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment and intangible assets are accounted for as property, plant and equipment and intangible assets.

Nkandla Municipality

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Accounting Policies

1.5 Property, plant and equipment and intangible assets (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and intangible assets and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment and intangible assets. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment and intangible assets is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment and intangible assets are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment and intangible assets have been assessed as follows:

Item	Average useful life in years
Infrastructure	30
• Roads and paving	30
• Pedestrian malls	20-80
• Electricity	
Community	30
• Buildings	20-30
• Recreational facilities	5
• Security	
Other	
• Buildings	30
• Other vehicles	5
• Office Equipment	3-7
• Furniture and fittings	7-10
• Bins and containers	5
• Other items of plant and equipment	2-5
• Landfill sites	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment and intangible assets with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment and intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment and intangible assets is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment and intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intangible assets consist of computer software.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life in years
Computer software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial Instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or [group of financial assets is impaired](#).

[Financial assets measured at amortised cost:](#)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Nkandla Municipality

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1.7 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Policies relating to specific financial instruments

Investments at amortised cost

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Investments at cost

Investments at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, bank and investments

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Nkandla Municipality

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Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Inventory comprises of general stores.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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1.10 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

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1.12 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Nkandla Municipality

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1.14 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Specific exchange revenue sources

Service charges relating to electricity are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

Rental income arising on investment properties, facilities and equipment is accounted for on a straight-line basis over the lease terms on ongoing leases.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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Accounting Policies

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

VAT

The municipality accounts for Value Added Tax on the payments basis.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Nkandla Municipality

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Accounting Policies

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As an organ of state, the municipality is defined as a government institution and therefore is related to all spheres of government (national, provincial and local).

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Nkandla Municipality

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Notes to the Annual Financial Statements

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2. New standards and Interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:

Effective date: Years beginning on or after

- GRAP 18: Segment Reporting 01 April 2015
- GRAP 105: Transfers of functions between entities under common control 01 April 2015
- GRAP 106: Transfers of functions between entities not under common control 01 April 2015
- GRAP 107: Mergers 01 April 2015
- GRAP 20: Related parties 01 April 2016
- GRAP32: Service Concession Arrangements: Grantor 01 April 2016
- GRAP108: Statutory Receivables 01 April 2016
- IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset 01 April 2016

3. Inventories

General stores

91 423

Inventories recognised as an expense during the year

91 423 78 330

Inventory pledged as security

There was no inventory pledged.

4. Other receivables from exchange transactions

Sundry debtors

1 229 763 1 099 192

Trade and other receivables pledged as security

There were no trade and other receivables pledged.

5. Receivables from exchange transactions

Gross balances

Electricity

4 777 752 5 894 855

Sundry

2 065 701 1 491 849

Refuse

4 774 621 3 980 665

Other

1 647 686 1 025 678

13 265 760 12 393 047

Less: Allowance for impairment

Electricity

(1 222 052) (4 141 677)

Sundry

(1 404 544) (935 746)

Refuse

(3 009 857) (2 802 685)

Other

(552 395) (562 389)

(6 188 848) (8 242 497)

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5. Receivables from exchange transactions (continued)		
Net balance		
Electricity	3 555 700	1 753 178
Sundry	661 157	556 103
Refuse	1 764 764	1 377 980
Other	1 095 291	463 289
	7 076 912	4 150 550
Included in above is receivables from exchange transactions		
Electricity	3 555 700	1 753 178
Sundry	661 157	556 103
Refuse	1 764 764	1 377 980
Other	1 095 291	463 289
	7 076 912	4 150 550
Net balance	7 076 912	4 150 550
Electricity		
Current (0 -30 days)	227 384	1 878 426
31 - 60 days	138 640	1 583 796
61 - 90 days	69 277	409 416
91 - 120 days	140 955	1 775 005
121 - 365 days	2 999 534	-
Adjustment per corrective journals	(20 090)	(3 893 465)
	3 555 700	1 753 178
Sundry		
Current (0 -30 days)	64 050	51 769
31 - 60 days	63 432	51 769
61 - 90 days	62 992	51 531
91 - 120 days	60 537	401 034
121 - 365 days	410 146	-
	661 157	556 103
Refuse		
Current (0 -30 days)	89 881	88 649
31 - 60 days	88 644	87 960
61 - 90 days	87 361	85 934
91 - 120 days	86 912	1 115 437
121 - 365 days	1 411 966	-
	1 764 764	1 377 980
Other		
Current (0 -30 days)	78 146	75 746
31 - 60 days	78 530	75 055
61 - 90 days	84 965	71 464
91 - 120 days	75 364	241 024
121 - 365 days	778 286	-
	1 095 291	463 289

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Notes to the Annual Financial Statements

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5. Receivables from exchange transactions (continued)		
Reconciliation of allowance for Impairment		
Balance at beginning of the year	(8 242 497)	(6 682 729)
Contributions to allowance	2 053 649	(1 559 768)
	(6 188 848)	(8 242 497)
6. Receivables from non-exchange transactions		
Consumer debtors - Rates	3 581 426	2 793 128
Rates debtors		
Gross balance	7 588 132	6 923 468
Less: Allowance for impairment	(4 006 706)	(4 130 340)
	3 581 426	2 793 128
Reconciliation of Provision		
Opening Balance	(4 130 340)	(3 348 737)
Contributions to provisions	123 633	(781 603)
	(4 006 707)	(4 130 340)
Rates by aging		
Receivables from non-exchange transactions		
Current 0-30 days	149 234	370 656
31-60 days	146 541	258 601
61-90 days	143 754	175 726
91-120 days	143 754	1 770 145
121-365 days	2 998 143	218 000
	3 581 426	2 793 128

Nkandla Municipality

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Notes to the Annual Financial Statements

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7. Consumer Debtors by Classification

Summary of debtors by consumer classification

Consumers

Current (0-30 days)	174 722	268 343
31-60 days	171 944	1 084 351
61-90+ days	8 962 297	9 389 961
	<u>9 308 963</u>	<u>10 742 655</u>

Industrial/ commercial

Current (0-30 days)	356 537	1 840 066
31-60 days	278 215	723 082
61-90 days	8 959 487	6 766 615
	<u>9 594 239</u>	<u>9 329 763</u>

National and provincial government

Current (0-30 days)	77 437	356 837
31-60 days	65 628	249 749
61-90 days	1 609 625	2 312 976
	<u>1 752 690</u>	<u>2 919 562</u>

Total

Current (0-30 days)	608 697	2 465 246
31-60 days	515 787	2 057 182
61-90+ days	19 531 409	18 469 552
Adjustments iro corrections	197 999	(3 675 465)
	<u>20 853 892</u>	<u>19 316 515</u>

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank and cash	<u>9 050 757</u>	<u>1 319 198</u>
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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA - Primary Bank Account - 4053858355	5 406 879	937 988	908 065	5 406 879	(512 632)	908 065
ABSA - Call Account - 9104679851	438 311	1 749 718	21 784 164	438 311	1 749 718	21 784 164
ABSA - MIG Call Account - 9108997407	1 992 684	33 957	9 453 639	1 992 684	33 957	9 453 639
ABSA - MIG Call Account - 9287118398	1 094	1 040	-	1 094	1 040	-
ABSA - Conditional Call Account - 9132397071	43 199	41 914	14 945 610	43 199	41 914	14 945 610
ABSA - DOE Call Account - 9287118576	24 085	1 040	-	24 085	1 040	-
ABSA - EPWP Call Account - 9287118801	236 095	1 040	-	236 095	1 040	-
ABSA - MSIG Call Account - 9287117928	381 374	1 040	-	381 374	1 040	-
ABSA - FMG Call Account - 9287118110	525 942	1 040	-	525 942	1 040	-
ABSA - Investment Account - 9287138394	1 094	1 040	-	1 094	1 040	-
Total	9 050 757	2 769 817	47 091 478	9 050 757	1 319 197	47 091 478

9. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6 955 451	(1 291 456)	5 663 995	6 955 451	(1 059 729)	5 895 722

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	5 895 722	(231 727)	5 663 995

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	6 118 583	(222 861)	5 895 722

Pledged as security

There was no investment property pledged as security.

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment and intangible assets

	2015		2014	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
				Accumulated depreciation and impairment
	114 782 440	-	114 782 440	114 782 440
Land	9 873 034	(2 013 482)	7 859 552	5 175 984
Buildings	1 521 804	(524 455)	997 349	1 524 338
Plant, machinery and office equipment	2 428 111	(1 033 838)	1 394 273	2 403 488
Furniture and fixtures	1 613 653	(771 302)	842 351	1 605 505
Motor vehicles	2 358 051	(1 011 264)	1 346 787	2 195 341
Computer equipment	111 744 353	(21 222 987)	90 521 366	101 333 990
Infrastructure	2 892 562	(1 179 650)	1 712 912	2 892 562
Landfill site	59 601 599	-	59 601 599	41 253 709
Work in progress				
Total	306 815 607	(27 756 978)	279 058 629	(21 461 393)
				251 705 964

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment and intangible assets (continued)

Reconciliation of property, plant and equipment and intangible assets - 2015

	Opening balance	Additions	Newly identified assets recognised	Disposals	Transfers	Accounting change in estimate	Depreciation	Impairment loss	Total
Land	114 782 440	-	-	-	-	-	-	-	114 782 440
Buildings	3 441 333	-	-	-	4 697 050	-	(278 831)	-	7 859 552
Plant, machinery and office equipment	932 336	55 350	278 311	(95 206)	-	1 485	(137 698)	(37 229)	997 349
Furniture and fixtures	1 338 109	437 389	103 586	(220 274)	-	44 877	(293 990)	(15 424)	1 394 273
Motor vehicles	1 071 734	-	8 148	-	-	-	(237 531)	-	842 351
Computer equipment	923 726	942 578	142 400	(121 844)	-	7 258	(541 929)	(5 402)	1 346 787
Infrastructure	86 035 551	-	3 382 652	-	7 027 712	-	(4 158 976)	(1 765 573)	90 521 366
Landfill site	1 927 026	-	-	-	-	-	(214 114)	-	1 712 912
Work in progress	41 253 709	38 285 810	-	-	(19 937 920)	-	-	-	59 601 599
	251 705 964	39 721 127	3 915 097	(437 324)	(8 213 158)	53 620	(5 863 069)	(1 823 628)	279 058 629

During the Municipality's annual review of property, plant and equipment, the remaining useful lives were reassessed where necessary. The effect of this is a change in accounting estimate is reflected in note 39.

Transfers per the note above relate to capitalised projects and capital projects completed during the year which are to be handed over to the Department of Transport and Eskom, thus the net effect of the transfers will not be zero. Refer to note 40 for further details.

Newly identified assets in the current year from the physical verification that was conducted were brought into the asset register amounted to R 3 915 097. This was based on the depreciated replacement cost method to establish the deemed cost at which the asset should be recognised as at 30 June 2015

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment and intangible assets (continued)

Reconciliation of property, plant and equipment and intangible assets - 2014

	Opening balance	Additions	Disposals	Transfers	Reclassifications between asset categories	Accounting Change in Estimate	Depreciation	Total
Land	114 153 440	629 000	-	-	-	-	-	114 782 440
Buildings	3 349 643	-	-	-	255 721	-	(164 031)	3 441 333
Plant, machinery and office equipment	602 558	730 067	(22 004)	-	(255 721)	3 432	(125 996)	932 336
Furniture and fixtures	1 036 117	577 050	(84 721)	-	-	50 131	(240 468)	1 338 109
Motor vehicles	621 138	638 400	-	-	-	-	(187 804)	1 071 734
Computer equipment	691 471	738 574	(146 802)	-	-	13 762	(373 279)	923 726
Infrastructure	76 435 406	-	-	13 603 145	-	(505 353)	(3 497 647)	86 035 551
Landfill site	2 136 045	-	-	-	-	(14 833)	(194 186)	1 927 026
Work in progress	58 367 854	49 959 908	-	(67 074 053)	-	-	-	41 253 709
	257 393 672	53 272 999	(253 527)	(53 470 908)	-	(452 861)	(4 783 411)	251 705 964

Assets held for sale were previously recognised as a separate line item. These have now been grouped together with land under property, plant and equipment. As at 30 June 2014, land was previously disclosed as R113 874 440. The revised amount is now R114 782 440 after taking into account assets held for sale of R908 000.

An asset previously recorded under Plant and Machinery has been reclassified to Buildings. This has had the net effect of increasing the carrying value of buildings by R255 721 and reducing the carrying value of Plant and Machinery by R255 721, as at 1 July 2013. This resulted in a change in depreciation between these two asset categories amounting to R17 060.

Pledged as security

There was no property, plant and equipment pledged as security.

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015 2014

11. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 654 653	(734 069)	920 584	937 589	(433 002)	504 587

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Accounting change in estimate	Amortisation	Total
Computer software	504 587	717 064	1 512	(302 579)	920 584

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	462 441	179 458	(137 312)	504 587

Pledged as security

There were no intangible assets pledged as security.

12. Payables from exchange transactions

Trade payables	7 760 268	2 712 266
Payments received in advance	3 023 989	3 615 451
Other payables	543 341	33 369
Accrued expenses	2 687 462	3 316 985
Retentions	207 879	-
	14 222 939	9 678 071

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

EPWP Grant	83 115	97 697
Sport and Recreation Grant	1 122 219	1 122 219
Qedisimo Grant	1 447 676	1 447 676
Library Grant	370 156	84 303
Cyber Cadet Grant	50 408	113 738
Financial Management Grant	120 616	33 240
Small Town Rehabilitation Grant	466 266	466 266
E-Learning Grant	167 230	167 230
Facility Grant	750 000	750 000
LG SETA	210 456	154 017
	4 788 142	4 436 386

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Provision for rehabilitation of landfill site	4 432 934	203 915	-	4 636 849
Provision for long service awards	99 099	83 978	-	183 077
Provision for leave pay	1 678 312	1 202 790	(19 378)	2 861 724
	6 210 345	1 490 683	(19 378)	7 681 650

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for rehabilitation of landfill site	4 158 475	274 459	4 432 934
Provision for long service awards	99 226	(127)	99 099
Provision for leave pay	1 499 982	178 330	1 678 312
	5 757 683	452 662	6 210 345

Non-current liabilities

Current liabilities

4 636 849	4 432 934
3 044 801	1 777 411
7 681 650	6 210 345

15. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Consumer debtors from exchange	-	7 076 912	7 076 912
Other receivables from exchange transactions	-	1 229 763	1 229 763
Consumer debtors non-exchange	-	3 581 426	3 581 426
Cash and cash equivalents	9 050 757	-	9 050 757
	9 050 757	11 888 101	20 938 858

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	14 232 221	14 232 221
Unspent Grants (non-exchange)	4 788 142	4 788 142
	19 020 363	19 020 363

2014

Financial assets

	At fair value	At amortised cost	Total
Consumer debtors from exchange	-	4 150 550	4 150 550

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
Financial instruments disclosure (continued)		
Other receivables from non-exchange transactions	1 099 192	1 099 192
Consumer debtors non-exchange transaction	2 793 128	2 793 128
Cash and cash equivalents	1 319 198	1 319 198
	1 319 198	8 042 870
		9 362 068

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	9 744 133	9 744 133
Unspent Grants (non-exchange)	4 436 386	4 436 386
	14 180 519	14 180 519

16. Revenue

Service charges	8 548 675	7 509 224
Rental of facilities and equipment	750 418	838 424
Interest on receivables	1 549 335	1 789 643
Other income	564 577	1 526 331
Interest on investment	989 265	1 288 493
Property rates	11 125 412	7 901 980
Government grants & subsidies	106 232 683	83 592 320
	129 760 365	104 446 415

The amount included in revenue arising from exchange and non-exchange transactions are as follows:

Service charges	8 548 675	7 509 224
Rental of facilities and equipment	750 418	838 424
Interest on consumer debtors	1 549 335	1 789 643
Other income	564 577	1 526 331
Interest received on investment	989 265	1 288 493
	12 402 270	12 952 115

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	11 125 412	7 901 980
Transfer revenue		
Government grants & subsidies	106 232 683	83 592 320
	117 358 095	91 494 300

17. Service charges

Sale of electricity	7 775 203	6 775 144
Refuse removal	773 472	734 080
	8 548 675	7 509 224

18. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	60 918	57 383
Rental of premises	689 500	781 041
	750 418	838 424

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
19. Investment revenue		
Interest revenue		
Bank	210 437	74 143
Interest on investment	775 493	1 214 350
Interest from SARS	3 335	-
	989 265	1 288 493
20. Other income		
Burial fees	7 239	13 074
Connection fees	209 401	127 284
Donations received	55 995	897 387
Housing plan	-	103 188
Library fees	19 349	9 244
Lindela Thusong Services	21 500	15 789
Refunds	71 568	241 164
Tampering fees	22 268	5 880
Taxi and bus licences	15 172	13 538
Tender monies	30 997	99 418
Wood sales	1 952	365
Plan submission	34 687	-
Zoning fees	10 600	-
Recoveries from employees	63 849	-
	564 577	1 526 331

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015

2014

21. Government grants and subsidies

Operating grants

Equitable share	65 879 000	46 726 000
Expanded Public Works Programme Grant	1 662 583	2 740 204
Financial Management Grant	1 712 624	1 817 114
Municipal Systems Improvement Grant	934 000	895 631
Cybercadet Grant	213 329	301 635
Sport and Recreation Grant	-	69 656
Library Grant	249 147	627 976
Qedisimo Projects	-	1 087 208
	70 650 683	54 265 424

Capital grants

Municipal Infrastructure Grant	31 582 000	24 881 000
Electrification Grant	4 000 000	4 445 896
	35 582 000	29 326 896
	106 232 683	83 592 320

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

In terms of the Division of Revenue Act an amount of R65 977 000 was gazetted to be received. An amount of R65 879 000 was received. The difference of R98000 was held back.

Electrification Grant

Balance unspent at beginning of year	-	4 445 896
Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	-	(4 445 896)
	(4 000 000)	-
	-	-

The conditions met - transferred to revenue has been limited to the grant funding available.

The municipality overspent on the grant .

An amount of R 4 650 857.42 was spent from the municipality's own funds.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	3 800 000
Current-year receipts	31 582 000	21 081 000
Conditions met - transferred to revenue	(31 582 000)	(24 881 000)
	-	-

The conditions met - transferred to revenue has been limited to the grant funding available.

The municipality overspent on the grant .

An amount of R 989 981.95 was spent from the municipality's own funds.

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
22. Property rates		
Rates received		
Property rates	23 823 495	14 783 559
Less: Income forgone	(12 698 083)	(6 881 579)
	11 125 412	7 901 980
Valuations		
Agriculture	56 000	-
Business	76 590 000	63 706 000
Place of worship	1 870 000	3 526 000
Residential	72 878 000	102 383 500
State trust land	115 590 000	115 590 000
State owned properties	361 708 000	364 933 000
Vacant land	8 090 500	2 500 000
Protected area	11 000 000	11 000 000
Specialised non-market properties	79 630 000	79 740 000
Public service infrastructure	95 000	119 000
Public benefit organisations	11 235 000	-
	738 742 500	743 497 500

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A fixed rate is applied:

Agriculture: 0.029c in the Rand

Business: 0.031c in the Rand

Place of worship: 0.018c in the Rand

Residential: 0.010c in the Rand

State trust land: 0.031c in the Rand

State owned properties: 0.031c in the Rand

Vacant Land: 0.015c in the Rand

Protected area: 0.031c in the Rand

Specialised non-market properties: 0.031c in the Rand

Public service infrastructure: 0.031c in the Rand

The following rebate rates are applied:

100% of market value of Ingonyama Trust Land.

100% of market value of residential properties less than R80 000

100% of market value of worshipping properties

First R80 000 on any residential properties

40% of market value less exemption for owners who are illegible pensioners.

23. Other revenue

Other income	564 577	1 526 331
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Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
24. Employee related costs		
Basic	20 781 092	17 205 641
Bonus	1 305 542	1 030 617
Medical aid - company contributions	945 204	731 501
UIF	145 729	113 572
SDL	248 993	173 808
Leave pay provision charge	1 202 790	178 331
Pension contributions	2 560 178	2 012 955
Travel, motor car, accommodation, subsistence and other allowances	3 004 270	2 119 113
Overtime payments	275 048	151 093
Long-service awards	83 978	(128)
Housing benefits and allowances	209 631	176 648
Group life insurance	211 319	154 481
Industrial council	7 899	6 344
	30 981 673	24 053 976

The Municipality does not have an obligation to pay post employment benefits to employees.

Remuneration of Municipal Manager

Annual Remuneration	732 468	533 407
Travel Allowance	194 867	119 675
Pension Adjustment	-	66 643
Housing Allowance	90 787	21 289
Housing Adjustment	-	70 000
	1 018 122	811 014

Remuneration of Chief Finance Officer

Annual Remuneration	577 828	538 018
Travel Allowance	227 208	215 082
Acting Allowance	34 515	30 121
	839 551	783 221

Remuneration of Director of Corporate Services

Annual Remuneration	276 037	527 880
Travel Allowance	118 302	68 070
Performance Bonuses	32 862	84 500
Unpaid Leave	-	(27 112)
Housing Allowance	-	102 000
Leave Pay	-	144 595
	427 201	899 933

A new Director of Corporate Services was appointed in the current financial year.

Remuneration of Director of Community Services

Annual Remuneration	439 308	538 018
Travel Allowance	188 275	215 082
	627 583	753 100

An Acting Director of Community Services has been appointed in the current financial year.

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
24. Employee related costs (continued)		
Remuneration of Director of Technical Services		
Annual Remuneration	586 318	453 867
Travel Allowance	125 839	158 162
Performance Bonuses	28 965	149 134
Housing Allowance	83 892	20 855
	825 014	782 018
25. Remuneration of councillors		
Executive Mayor	742 963	585 441
Deputy Executive Mayor	340 606	307 799
Speaker	340 606	307 799
MPAC Chairperson	301 088	272 382
Ordinary Councillors	4 800 320	4 352 962
Skills levy	35 894	34 669
Executive Committee	962 541	870 270
	7 524 018	6 731 322
26. Bulk purchases		
Electricity	10 998 881	8 073 041
27. Contracted services		
Information Technology Services	1 641 348	1 836 663
Security Services	3 523 353	2 715 772
	5 164 701	4 552 435
28. Debt impairment		
Contributions to doubtful debt provision	(2 177 284)	2 341 372
29. Depreciation and amortisation		
Property, plant and equipment and intangible assets	5 863 067	4 783 411
Investment property	231 727	222 861
Intangible assets	302 579	137 312
	6 397 373	5 143 584

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
30. General expenses		
Advertising and publicity	1 968 252	2 471 929
Auditors remuneration	1 261 314	1 203 469
Bank charges	92 527	66 973
Cleaning	111 527	206 139
VAT commission	884 346	2 718 274
Consulting and professional fees	7 820 991	6 312 489
Consumables	555 366	59 671
Community safety	184 943	1 822 561
Entertainment	147 454	70 013
Fines and penalties	6 000	37 135
Free basic energy	718 809	563 270
Hire of plant and equipment	-	480 305
Insurance	132 786	207 998
Community development	1 865 570	2 205 885
Computer expenses	185 983	94 767
Local economic development	887 757	3 731 907
Youth development	463 952	884 634
Social services	59 900	110 063
Fuel and oil	923 204	804 293
Postage and courier	-	148
Printing and stationery	127 381	439 720
Software and licenses	46 736	228 784
Staff welfare	134 764	187 965
Subscriptions	500 100	401 080
Telephone expenses	1 204 277	784 351
Training	639 561	1 088 244
Accommodation	705 379	794 736
Water	309 784	388 221
Sewerage and waste disposal	49 679	20 733
Uniforms	192 872	68 406
Tourism development	155 729	-
Bursaries	112 525	26 410
Library and information services	118 877	268 390
Indigent burial	135 000	171 289
Spatial planning	-	24 189
Sport and recreation	1 562 263	1 410 482
Departmental charges	3 773 123	571 348
Landfill site provision adjustment	203 915	274 459
	28 242 646	31 200 730

31. Lease rentals and Operating lease

Expense incurred	1 681 464	1 541 877
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Operating leases are in respect of leasing of printing from Nashua and Konica Minolta. Refer to note 35 on additional lease commitment information

32. Impairment of assets

Impairments

Property, plant and equipment and intangible assets

During the physical verification of the assets, certain assets were identified to be in a poor condition and thus an impairment was recognised accordingly

1 823 628

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
33. Loss on disposal of assets		
Loss on derecognition of assets	437 324	253 527
	437 324	253 527
34. Grant expenditure		
Other subsidies		
Transfers and Grants Expenditure	8 213 158	19 458 790
Included in transfers and grants for 2015 - R 8 213 158 (2014 - R 18 801 389) relating to capital projects to be handed over		
35. Auditors' remuneration		
Fees	1 261 314	1 203 469
36. Cash generated from operations		
Surplus (deficit)	28 783 478	(5 391 286)
Adjustments for:		
Depreciation and amortisation	6 397 373	5 143 584
Profit/loss on disposal of assets	437 324	253 527
Change in accounting estimate	(55 131)	452 861
Interest income	(2 538 600)	(3 078 136)
Impairment loss on assets	1 823 628	-
Debt impairment	(2 177 284)	2 341 372
Movements in provisions	1 471 305	452 662
Other non-cash items	12 941 620	20 483 355
Changes in working capital:		
Inventories	91 423	(91 423)
Other receivables from exchange transactions	(130 571)	(1 099 192)
Consumer debtors exchange transactions	(2 926 362)	(3 450 252)
Receivables from non-exchange transactions	(788 298)	(2 793 128)
Consumer debtor (not split)	-	6 610 339
Vat Receivable	-	2 857 981
Payables from exchange transactions	4 544 868	(5 236 755)
VAT	(56 779)	66 062
Unspent conditional grants and receipts	351 756	(9 841 400)
	48 169 750	7 680 171

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015 2014

37. Commitments

Authorised capital expenditure

Already contracted for

- Infrastructure assets

45 793 369 19 465 102

Not yet contracted for and authorised by accounting officer

- Plant and equipment

148 621 125 2 250 000

Total capital commitments

Already contracted for but not provided for

45 793 369 19 465 102

Not yet contracted for and authorised by accounting officer

148 621 125 2 250 000

194 414 494 21 715 102

This committed expenditure relates to property and will be financed by available grant funding, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year
- in second to fifth year inclusive

1 012 220 778 770

115 207 676 367

1 127 427 1 455 137

Operating lease payments represent rentals payable by the municipality for vehicles and computer equipment. Leases are negotiated for an average term of three years for the rental of vehicles and computer equipment with contingent rentals payable.

38. Contingencies

Three Officials were suspended on different counts. These three employees were Mr. S.B. Mthembu (Municipal Manager) Mr. S.C.M Cele (Sports and Recreation Officer) and N.F. Mhlongo (General Worker; Electrical Services)

The case for Mr. S.C.M Cele set and was finalized and the employee was found guilty in all eight counts. Therefore the employee was dismissed on grounds of misconduct as he was found guilty. The amount of the potential claim is R250 000.

The case of employee (Mr. N.F. Mhlongo) has not yet been finalized. The matter was scheduled to take place and was re-scheduled for unknown date. The potential claim is R36 000

The Municipal Manager was suspended by Council and the case set on scheduled date and he was found not guilty by the Presiding Officer. The case, served before council and the Council resolved by putting the matter on hold till the Council sought legal opinion on the matter. The said employee is not on site. After consultation with the Municipal legal team, the council suggested that the relations are irreparable therefore an "out of court" settlement was proposed. The amount of potential claim is R950 000.00

Nkandla Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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39. Related parties

As a local government entity (being a municipality) we are defined as an organ of state and as such is a related party to national, provincial and local spheres of government and their related entities.

Related party transactions

Purchases from (sales to) related parties		
Eskom SOC Limited	10 998 881	8 073 041
Grants & Subsidies received		
National Treasury (Gazetted through DORA)	105 770 207	82 593 053
Provincial Allocations	462 476	999 267

40. Change in estimate

Property, plant and equipment and intangible assets

During the review of property, plant and equipment and intangible assets, the remaining useful lives were reassessed. The effect of this change in accounting estimate in the current and future periods are as follows:

2015	Depreciation previously reported	Revised depreciation	Change in estimate	Impact on future periods
Computer equipment	1 271 615	1 264 358	(7 257)	(47 068)
Plant, machinery and other equipment	592 004	590 519	(1 485)	(1 630)
Furniture and fittings	1 065 379	1 020 503	(44 877)	(400 293)
Intangible assets	433 001	431 490	(1 512)	(22 556)
	3 361 999	3 306 870	(55 131)	(471 547)

2014	Depreciation previous reported	Revised Depreciation	Change in estimate	Impact on prior period
Computer equipment	1 555 620	1 541 858	(13 761)	(1 553)
Furniture and Fittings	1 050 314	1 000 183	(50 130)	(26 497)
Plant , machinery and other equipment	1 238 694	1 235 260	(3 433)	(1 460)
Community Assets	5 240 636	5 244 797	4 161	(76)
Infrastructure	6 891 671	7 392 864	501 192	(254 212)
Landfill site	756 516	771 349	14 833	(32 364)
	16 733 451	17 186 311	452 862	(316 162)

41. Prior period errors

Payroll

The payroll suspense vote included an amount of R 220 212.47 as at 30 June 2014. This amount was as a result of a SARS payment of R 220 212.47 not clearing from the suspense account in the 2014 year. Thus a correcting entry was processed to clear this balance as it should not reflect as a payable as the amount had been paid.

Accruals

Accruals were raised previously for an amount of R 301 575.60, as part of adjustments which affected the 2013 financial year. On subsequent review of the general ledger transactions these invoices were raised as a liability in the 2013 year to the creditors previous vote. Thus a correcting journal entry was processed to clear the accruals balance reflected as the amount is not owed by the municipality.

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41. Prior period errors (continued)

Property plant and equipment

Certain capital projects completed during the year are to be handed over to the Department of Transport and Eskom. In prior periods the costs relating to these projects were capitalised to work in progress. These projects are handed over upon completion and are removed from work in progress. As the costs of these projects will not be capitalised, a correction of error was required to account for the expenditure against grant revenue previously recognised. The necessary correcting journal entries amounting to R 53 470 908 was processed to Accumulated Surplus and Property plant and equipment (Work in progress).

Mashushu link road was recorded correctly on WIP but the physical reallocation from the grant expenditure to the WIP did not take place in 2014. This amounted to R 812 197

An item of computer equipment was erroneously written off in the prior period. The item of computer equipment was subsequently identified and physically in use and therefore had to be re-recognised in the 2014.

The correction of error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment and intangible assets	-	(53 470 908)
PPE - Computer Equipment	-	53 355
Accumulated Depreciation - Computer Equipment	-	44 128
Assets under construction	-	812 917
Payables from exchange transactions	-	(220 212)
Accumulated Surplus- Payroll Expense	-	220 212
Opening Accumulated Surplus or Deficit	-	34 669 519
Payables from exchange transactions - accruals	-	(301 575)
Accumulated Surplus - Accruals	-	301 575

Statement of Financial Performance

Transfer of asset expense	-	18 801 389
Reallocation of Mashushu Link Road to WIP vote	-	(812 917)
Effect on change in Profit/Loss to due asset being re-recognised	-	(9 227)

42. Prior Period Error - Revenue

Certain departmental accounts were erroneously not billed. In addition, there were receipts for the sale of land that was incorrectly credited against the consumer debtor account. There was also electricity revenue that was billed in error in the prior year. The impact of which has been disclosed for 2014.

Statement of Financial Position

	Restated	Previously Reported 2014	Net Effect
Receivables from non-exchange transactions	2 793 128	2 575 128	218 000
Receivables from exchange transactions	5 249 741	8 044 015	(2 794 274)
Payables from exchange transactions	9 744 132	11 004 868	(1 260 736)
Statement of changes in equity	12 581	-	12 581
	17 799 582	21 624 011	(3 824 429)

Statement of Financial Performance

	Restated	Previously Reported 2014	Net Effect
Service Charges - Electricity	6 775 144	10 668 609	(3 893 464)
Rates	7 901 980	6 911 663	990 317
	14 677 124	17 580 272	(2 903 147)

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43. Reclassification of Expenditure

2014

	General Expenditure	Lease Rentals	Grant Expenditure
General Expenditure to leases rentals	(1 541 877)	1 541 877	-
Grant Expenditure to Consulting Fees (General Expenditure)	1 364 608	-	(1 364 608)
	(177 269)	1 541 877	(1 364 608)

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequately utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

46. Events after the reporting date

There were no material events after the reporting date

47. Fruitless and wasteful expenditure

Opening Balance	176 905	7 803
Fruitless and wasteful expenditure current year not condoned	143 254	169 102
Interest charged on Eskom Account - Current Year (not condoned)	7 960	-
	328 119	176 905

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47. Fruitless and wasteful expenditure (continued)		
Fruitless and wasteful expenditure is as a result of penalties/late payments of interest charged by SARS, Telkom and Eskom.		
48. Irregular expenditure		
Opening balance	30 766 117	-
Add: Irregular Expenditure - current year (not condoned)	15 078 725	30 766 117
Additional Irregular Expenditure - current year (not condoned)	124 888	-
	45 969 730	30 766 117
Analysis of current year irregular expenditure		
Amounts not condoned	15 078 725	30 766 117
Additional Irregular - not condoned	124 888	-
	15 203 613	30 766 117
Further details of the irregular expenditure can be found in the irregular expenditure register maintained at the Municipality		
Awards to close family members of persons in service of the state		
Dumisani Langa Trading (Pty) Ltd - Mrs FS Langa	198 000	532 000
49. In-kind Services		
There has been no in kind services for the year under review.		
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription	500 000	400 000
Amount paid - current year	(500 000)	(400 000)
	-	-
Audit fees		
Current year fee	1 261 314	1 203 469
Amount paid - current year	(1 243 372)	(1 203 469)
	17 942	-
PAYE and UIF		
Current year fee	4 439 419	3 852 170
Amount paid - current year	(3 968 683)	(3 415 129)
	470 736	437 041
Pension and Medical Aid Deductions		
Current year subscription / fee	6 154 696	4 824 351
Amount paid - current year	(5 648 212)	(4 357 540)
	506 484	466 811

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT payable	9 283	66 062
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51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations. The deviations for 2015 - R 14 047 818 amounted to (2014 - R 2 212 073).

52. Electricity Distribution Losses

Electricity distribution loss in rand value	1 195 151	1 522 407
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The electricity losses in units for 2015 - 3 286 687 (kwh). This constituted a 36% loss which is above the norm of 5%-6%

53. Repairs and Maintenance

The statement of financial performance includes:

Repairs & Maintenance - Vehicles	443 213	294 463
Repairs & Maintenance - Building	867 828	2 020 380
Repairs & Maintenance - Plant Machinery and Other Equipment	9 570	28 423
Repairs & Maintenance - Infrastructure	423 823	3 690 920
	<u>1 744 434</u>	<u>6 034 186</u>